

WATER/RHG

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of CALIFORNIA)	
WATER SERVICE COMPANY U-60-W, for)	
authority to issue and/or sell on or before)	Application 02-01-002
December 31, 2005 not exceeding in aggregate)	(Filed January 8, 2002)
amount \$250,000,000 of any combination of)	
(1) shares of its common stock, (2) shares of its)	
preferred stock, or (3) debt securities.)	
_____)	

OPINION

Summary

This decision grants California Water Service Company (CWS) the authority requested in Application (A.) 02-01-002 (Application).

CWS requests authority, pursuant to §§ 816 through 830 and 851 of the Public Utilities (PU) Code, to issue and/or sell not exceeding in aggregate amount \$250,000,000 of any combination of (1) shares of its common stock, (2) shares of its preferred stock, or (3) debt securities for purposes allowed by the PU Code. CWS also requests exemption from the Competitive Bidding Rule.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of January 9, 2002. No protests have been received.

Background

CWS, a California corporation, is a Class A water utility under the jurisdiction of this Commission. CWS provides water service to customers in many localities in the State of California from Chico in the North to the Palos Verdes Peninsula in the South.

For the 12 months ended November 30, 2001, CWS reported that it generated operating revenues of \$244,662,831 and net income of \$15,574,295, as shown in Exhibit A to the Application.

CWS' Balance Sheet as of November 30, 2001, shown as part of Exhibit A, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$605,216,419
Investment in Non-Utility Property	2,804,908
Current Assets	32,649,095
Other Assets	<u>46,299,058</u>
Total Assets	<u>\$686,969,480</u>
<u>Capitalization and Liabilities</u>	
Common Stockholders' Equity	\$190,666,283
Preferred Stock	3,475,000
Long-Term Debt	<u>204,223,795</u>
Total Capitalization	\$398,365,078
Current Liabilities	68,071,558
Unamortized Investment Tax Credit	2,966,879
Deferred Income Taxes	29,064,624
Regulatory and Other Liabilities	22,835,103
Advances for Construction	106,432,809
Contributions in Aid of Construction	<u>59,233,429</u>
Total Capitalization and Liabilities	<u>\$686,969,480</u>

Proposed Securities

CWS seeks authorization to issue equity securities in the form of shares of its common stock and preferred stock solely to its parent company, California Water Service Group (Group). Group is CWS' only shareholder and owns all of CWS' outstanding common and preferred shares. If CWS issues debt securities, it shall not exceed \$250,000,000 when combined with the equity financing. Because of the possibility of changing market conditions over the period covered by the Application, CWS desires to retain the maximum degree of flexibility as to the timing, size and terms of the debt offering(s). Debt securities includes, but is not limited to, first mortgage bonds, senior notes, convertible debentures, medium term notes, and tax-free notes or bonds.

CWS proposes to issue and sell debt securities (less the amount of any equity financing) either at private sales or through negotiated underwritings, in one or more issues, to be dated on or after January 1, 2002, but before December 31, 2005, and to mature up to 35 years after issuance as CWS may determine.

The basic terms of future debt financing(s) would not be determined until a time close to the date of issuance. Consequently, the method of financing and applicable terms such as purchase price, interest rate, maturity, sinking fund requirements, redemption price (including premium schedule), call protection, exact form and terms of the underwriting agreement(s), if applicable, cannot be determined at this time. CWS states in the Application that it will provide the Commission with the final purchase and underwriting agreements, as applicable, within 30 days of the closing date of such transaction(s).

Construction Budget

CWS' estimated construction expenditures for utility plant for 2001 through 2005, as shown in Exhibit B to the Application, are as follows:

(thousands of dollars)

Components	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Total</u>
Land and land rights	889	527	800	750	800	3,766
Structures and improvements	4,720	3,565	3,950	3,650	3,800	19,685
Wells	607	1,226	1,750	1,975	2,250	7,808
Storage	3,276	3,882	4,780	4,050	4,374	20,362
Pumping and water treatment equipment	16,172	34,730	18,500	38,050	40,000	147,452
Transmission and distribution mains	14,747	17,220	18,000	17,500	18,000	85,467
Services	2,983	2,404	2,825	2,881	2,950	14,043
Meters	2,987	3,012	3,104	3,150	3,200	15,453
Hydrants	691	725	760	770	790	3,736
General equipment	<u>5,506</u>	<u>9,568</u>	<u>8,500</u>	<u>7,080</u>	<u>7,250</u>	<u>37,904</u>
Construction Total	<u>52,578</u>	<u>76,859</u>	<u>62,969</u>	<u>79,856</u>	<u>83,414</u>	<u>355,676</u>

Note: The construction budget in CWS' general rate case filing during 2000 was \$48,160. The adjusted amount of \$52,578 reflects the addition of the construction budget items for Dominguez Water Corporation, which was acquired by CWS in 2001.

We will not make a finding in this decision on the reasonableness of CWS' estimated construction program. Construction expenditures and the resulting plant balances in rate base are issues that are normally addressed in general rate cases.

Cash Requirements Forecast

CWS' Statement of Cash Requirements for the years 2001 through 2005, derived from the Supplemental Schedule III to the Application, is as follows:

(thousands of dollars)

Components	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Funds Needed for Construction	52,578	76,859	62,969	79,856	83,414
Long-Term Debt					
Sinking Fund Requirement-various	2,225	2,225	2,210	2,210	2,210
Maturity of Debt	0	2,565	2,565	0	0
Temporary Borrowing Balance	<u>14,500</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Cash Requirements	69,303	81,649	67,744	82,066	85,624
Beginning Short-Term Investment Balance	0	0	0	0	0
Estimated Cash Available from Internal Sources	<u>27,303</u>	<u>18,430</u>	<u>19,090</u>	<u>23,674</u>	<u>27,752</u>
Funds Required from Outside Sources	<u>42,000</u>	<u>63,219</u>	<u>48,654</u>	<u>58,392</u>	<u>57,872</u>

CWS' estimated cash requirements indicate that it would require additional funds from external financing sources amounting to \$270,137,000 for 2001 through 2005. By this Application, CWS intends to issue \$130,000,000 Common Stock and \$120,000,000 debt to cover majority of its funding requirements for the mentioned period. The difference will be funded by short-term bank borrowings and retained earnings.

Capital Ratios

CWS' capital ratios as of November 30, 2001 are shown below as recorded and as adjusted to give pro forma effect to a proposed issuance of \$130,000,000 Common Stock and \$120,000,000 debt authority under the Application:

	Recorded		Pro-Forma	
	<u>(\$000)</u>	<u>%</u>	<u>(\$000)</u>	<u>%</u>
Common Stock Equity	190,666	47.9	320,666	49.5
Preferred Stock	3,475	.9	3,475	.5
First Mortgage Bonds	120,865	30.3	120,865	18.6
Senior Notes/Other Debt	<u>83,359</u>	<u>20.9</u>	<u>203,359</u>	<u>31.4</u>
Total Capitalization	<u>398,365</u>	<u>100.0</u>	<u>648,365</u>	<u>100.0</u>

Capital structures are normally subject to review in cost of capital or general rate case proceedings. We will not make a finding in this decision of the reasonableness of the projected capital ratios for ratemaking purposes.

Competitive Bidding Rule

The Competitive Bidding Rule set forth in Resolution (Res.) F-616 dated October 1, 1968, exempts bond issues of \$20,000,000 or less from the competitive bidding requirement. CWS states in the Application that it will not directly issue any single debt series in excess of \$20,000,000 and will not sell more than \$20,000,000 in total during any calendar year to any one purchaser. Accordingly, CWS believes that its proposed issuance and sale should be exempted from the requirements of the Competitive Bidding Rule. In D.96-10-062 dated October 25, 1996, the Commission granted CWS \$115,000,000 financing authority and granted CWS, on the same basis cited above, exemption from the Competitive Bidding Rule.

CWS' request for exemption is within the purview of the modified and prevailing conditions for enforcement and exemptions defined in Res. F-616. We will exempt CWS from the Competitive Bidding Rule in connection with this authorization.

Use of Proceeds

CWS proposes to use the proceeds from the issuance and sale of the equity and debt securities for such purposes as may be allowed under § 817 of the PU Code. These purposes include a) water utility plant construction, completion, replacement, extension or improvements of its existing facilities, b) acquisition of property and water systems, c) retirement of maturing long-term debt, d) satisfying First Mortgage Bond sinking fund requirements, e) paying off outstanding short-term debt, and f) reimbursements of moneys previously expended from income for which CWS' treasury has not been reimbursed.

PU Code § 823(d) provides:

“No note payable at a period of not more than 12 months after the date of issuance of such note shall, in whole or in part, be refunded by any issue of stocks or stock certificates or other evidence of interest or ownership, or of bonds, notes of any term or character, or any other evidence of indebtedness, without the consent of the commission.”

For purposes of this Application and pursuant to PU Code 823(d), we will permit CWS to pay off short-term debt with the authority granted in this decision.

In Resolution (Res.) ALJ 176-3069 dated August 23, 2001, the Commission preliminarily categorized this Application as ratesetting, and preliminarily determined that hearings were not necessary. No protests have been received. Given these developments, a public hearing is not necessary, and there is no need to alter the preliminary determinations made in Res. ALJ 176-3069.

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to PU Code § 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

Findings of Fact

1. CWS, a California corporation, is a public utility subject to the jurisdiction of this Commission.
2. CWS needs external funds for the purposes set forth on page 7 of this decision.

3. The proposed issue of debt and equity securities is for proper purposes and is not adverse to the public interest.

4. Authorizing CWS to determine the amount, timing, terms and conditions, and method of offering its proposed financing would not be adverse to the public interest.

5. CWS' request for exemption from the Competitive Bidding Rule is within the purview of the modified and prevailing conditions of enforcement and exemptions defined in Res. F-616.

6. The Commission does not by this decision determine that the construction budget, cash requirements forecast, and capital ratios presented herein are necessary or reasonable for ratemaking purposes.

7. Notice of the filing of the Application appeared on the Commission's Daily Calendar of January 9, 2002. There is no known opposition to this Application, and the authority requested should be granted, subject to the conditions below.

Conclusions of Law

1. A public hearing is not necessary.

2. PU Code 823(d) provides that no note payable at a period of not more than 12 months after the date of issuance of such note shall be refunded, in whole or in part, by any issue of stocks or stock certificates or other evidence of interest or ownership, or of bonds, notes of any term or character, or any other evidence of indebtedness, without the consent of the Commission.

3. The proposed issue of debt and equity securities is for lawful purposes and the money, property, or labor to be obtained is required for these purposes. The proceeds may not be charged to operating expenses or income.

4. WS has previously paid the fee of \$131,000 determined in accordance with PU Code 1904(b).

5. The Application should be granted to the extent set forth in the order, which follows.

6. The following order should be effective on the date of signature.

ORDER

It is **ORDERED** that:

1. On or after the effective date of this order, and on or before December 31, 2005, California Water Service Company (CWS), upon terms and conditions consistent with those described at pages 2 and 3 of this decision, is authorized to issue not exceeding in aggregate amount \$250,000,000 of any combination of (i) shares of its common stock, (ii) shares of its preferred stock, or (iii) one or more types of financial obligations (debt securities).
2. CWS may determine the precise amount and timing of each debt financing, the market in and method by which each is issued, the principal amounts and maturities and, other terms of the borrowings.
3. CWS may refinance, refund, or replace short-term debt securities by the issuance and sale of debt and equity securities authorized in this order.
4. The authority granted in this decision is exempted from the requirements of the Commission's Competitive Bidding Rule.
5. CWS shall not issue any one series of debt in excess of \$20,000,000 and will not sell more than \$20,000,000 in total during any calendar year to any one purchaser.
6. CWS shall file with the Water Division copies of the final purchase and underwriting agreements or other debt related instruments not later than 30 days after the documents have been executed and Water Division shall review the purchase and underwriting agreements for compliance.
7. On or before the 25th day of each month, CWS shall file with the Water Division the reports required by General Order No. Series 24-B indicating therein the type of securities issued and the purposes for which it expended the proceeds.
8. The Water Division shall review the filings required by number six and seven above for compliance to this order.
9. Application 02-01-002 is granted as set forth above.

10. Application 02-01-002 is closed.

This order is effective today.

Dated _____, at San Francisco, California.

(thousands of dollars)

Components	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Funds Needed for Construction	52,578	76,859	62,969	79,856	83,414
Long-Term Debt					
Sinking Fund Requirement-various	2,225	2,225	2,210	2,210	2,210
Maturity of Debt	0	2,565	2,565	0	0
Issue of Common Equity	0	-20,000	-40,000	-40,000	-30,000
Issue of Long-Term Debt	-20,000	-40,000	-20,000	-30,000	-30,000
Temporary Borrowing Balance	<u>14,500</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	49,303	21,649	7,744	12,066	25,624
Less:					
Beginning Short-Term Investment Balance	0	0	0	0	0
Estimated Cash Available from Internal Sources	<u>27,303</u>	<u>18,430</u>	<u>19,090</u>	<u>23,674</u>	<u>27,752</u>
Additional New Funds Required from Outside Sources	22,000	3,219	(11,346)	(11,608)	(2,128)
Cumulative Funds Required					137

CWS' estimated cash requirements indicate that it would require additional funds from external financing sources amounting to \$137,000,000 for 2001 through 2005.